DOW THEORY LETTERS INC.

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36 Letters per Year – $125 Annually

Registered with the Securities Exchange Commission

September 26, 1975 Letter 643

Sept. 12, DJIA 809.29; PTI 320; A-D ratio -30.47
Sept. 19, DJIA 829.79; PTI 314; A-D ratio -30.37

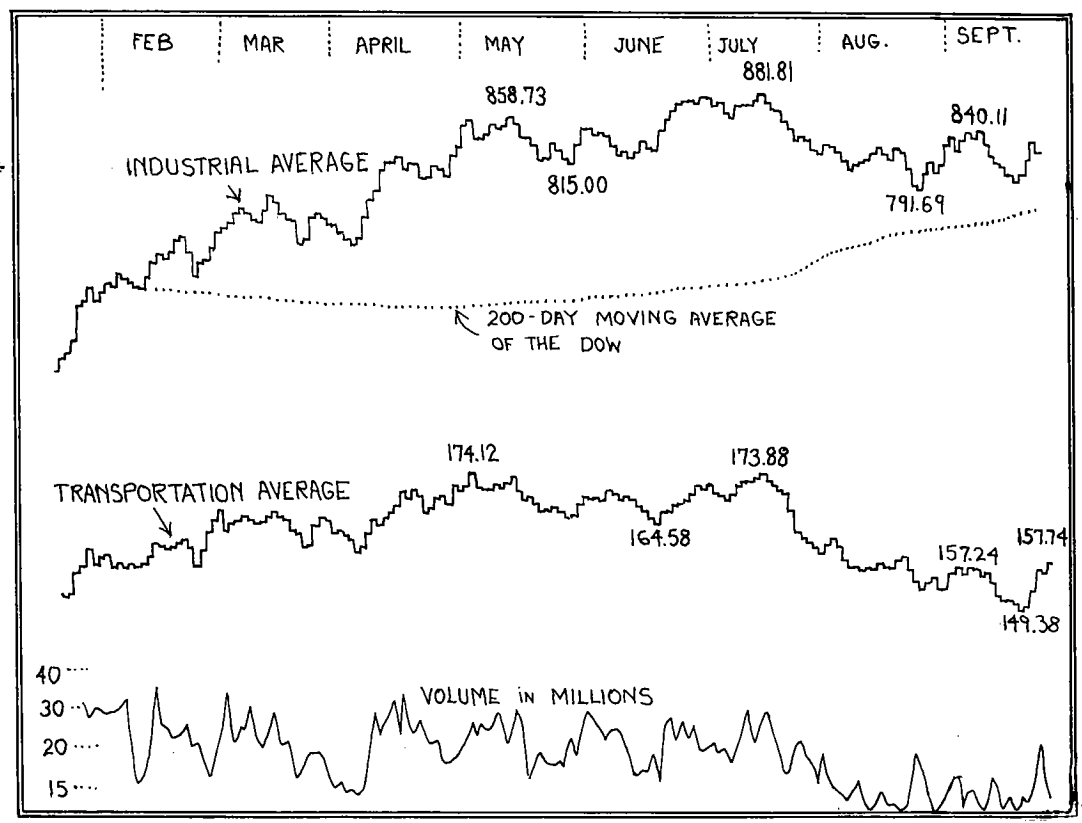
PARADOXES: Some readers may wonder why I hesitate, at times, to take an all-out bullish or bearish stand on the stock market. For instance, right now I am of the opinion that we're in a primary bull market, but paradoxically I'm not terribly optimistic. I'm not that all-fired happy, because I know what's producing this bull market and what's going to have to go into the financial pressure cooker if this bull market is to continue.

The reason I'm not starry-eyed about the bull market is that the nation's debt (in all departments) is sky-high, interest rates are near historic peaks, and if the Government was suddenly to "leave the economy alone," business would probably fold up like a house of cards. It's going to require huge new amounts of monetary inflation to keep this bull market rolling, and ultimately, that's the course I expect the Government to take.

Now that kind of action destroys all stability, all savings, all insurance policies, all fiscal sanity. Monetary inflation also breeds a "what the hell" attitude on the part of the public, and that attitude is inevitably translated into shoplifting, vandalism, thievery, violent crimes, and anti-social acts of all kinds. If we are to have a big bull market, that's what we can expect (or rather we can expect increasing amounts of it), because this bull market has to be built on vast amounts of monetary fuel, not only in the US but around the world. In case you haven't read about it, an increasing number of nations from Japan to England to France are now pumping away at their money supply. So it's not just the American or the British "disease" any longer, it's a worldwide political phenomenon, and there are precious few men or nations who have the will to resist it (even "conservative" South Africa has just announced a whopping 17.9% devaluation of its rand).

I study my gold charts and statistics, and one paradox appears more absurd than ever. Months ago I saw the technical structure of gold being shattered, and I am glad that I told my readers to sell. I told them to sell even though everything on the inflation front seemed to be saying "buy" as far as gold was concerned. But what use is it if I stick to principles ("everyone's got to own gold shares or gold") if those principles break my subscribers before the big inflation ever arrives. If none of us survives, then all our principles can be shoved into a cocked hat. I guess that "sell gold" decision was one of the hardest I've had to make in the seventeen years I've been writing these reports.

Frankly, I don't know whether any of us will make it (financially speaking) through another riproaring bull market. The amount of monetary debasement it's going to take to give us the bull market is probably going to cause us to wonder whether we weren't better off during the 1966-74 bear market. At any rate, I'll go on writing about the situation as I see it, because being prepared constitutes the foundation for survival. And if we don't survive, we're of no use to anyone, our country, our friends, our families, ourselves.



THE MARKET: One of the reasons why Wall Street is such a difficult game is that it plays with our emotions the way an

expert pianist plays with the keys of his piano. When the market heads down, and we're just about certain that stocks are going into the basement, the market suddenly leaps up like a hungry jackrabbit. When the market is roaring along, and we are convinced that this is the ride of the century, we suddenly notice (to our discomfort) that the market has been churning for the past ten days and is about to take a swan dive. When all is dull, and it appears that the Street is putting on its version of a funeral wake, volume suddenly explodes, the board rooms miraculously fill up, and hysteria reigns. Then in the midst of white heat, the Averages stall, volume simmers down, and Wall Street looks as if it's on a combined Jewish-Catholic holiday with perfect beach and tennis weather thrown in for good measure.

Now let's put this "difficult game" into the context of the present. In the last report I warned that "where the market is concerned, it never pays to leap to the obvious." The obvious a few weeks ago seemed to be that we were on a non-stop descent through 700 on the Dow.

But I wrote, "Note that the recent low for Industrials was 791.69 (Aug. 21) while the comparable Transport low was 152.82 (Aug. 27). On September 10 the market plunged and Transports broke to a new low of 152.29. Industrials refused by a wide margin to confirm.... Thus we now have a critical level, 791.69 for Industrials. A plunge by the senior Average through that point would indicate a new major, downward leg for this reaction. Conversely, a stubborn refusal by Industrials to penetrate the 791.69 level would suggest an extension of the rally which began in late August."

On September 16 the Transports sank to a new low for the move (see chart, page 1) at 149.38. On the same day Industrials dropped to a closing low of 795.13. The Industrials thus refused (through six consecutive days of decline) to close under the important August 21 low of 791.69. The margin of grace was slightly better than four points.

In the face of this definite downside non-confirmation, the market started rallying gingerly on September 17. On September 18, however, the move gathered steam, and Industrials rose over 15 points with Transports up almost 3. September 19 saw another dramatic 15 point Dow rise with Transports up just short of 4 points.

One factor which I should repeat here is that under Dow Theory, a movement is taken to be completed at the point where the Industrials and Transports register their last joint (confirmed) highs or lows. If you remember, on the explosive rise from the 1974 lows, the Transports recorded their peak of 174.12 on May 5. That was the date of the last confirmed highs. Although Industrials continued to rise into mid-July, the Transports never bettered their May 5 peak.

The implications of the May 5 date should be fully understood. If we take May 5 as the beginning of the secondary correction, then the market has been undergoing a correction for four full months (from May 5 to the recent lows of September 16). That time span certainly fulfills the requirements for a secondary correction (most secondaries in a bull market last from three weeks to three months). From the standpoint of the impatient bull, then, the case for the correction having been completed on September 16 is a fairly good one (at least from a duration standpoint).

This is one of those junctures where the Averages provide excellent "signal levels." I want to repeat for newer readers that all Dow Theory signals require penetrations by both Averages, Industrials and Transports. In other words, according to Dow Theory, we draw valid conclusions only from the movement of both Averages through preceding points. The corollary is that penetrations of a single Average, unaccompanied by the other (i.e. non-confirmations), are usually deceptive and should be treated with suspicion.

As far as the signals are concerned, on the upside, we have two sets of peaks that should be watched. The first set is the August 29 Transport peak of 157.24 and the September 8 peak of 840.11 (see page 1 chart). If both Averages better those peaks, then we will fix our eyes on the 1975 recovery highs of 174.12 (May 5) for Transports and 881.81 (July 14) for Industrials. On the downside we have the 791.69 Industrial low of August 21 and the 149.38 Transport low of September 16. And that's the picture — why guess when the critical points are clear and nearby? Why not let Wall Street do the talking for a while?

I might add, however, that the August market lows did not seem to represent the "base" for a broad new advance. Since the September lows were at the approximate August level, we can at least be suspicious as to whether the September lows will fare any better. When this kind of situation prevails, the market often has to move even lower before the real buyers come in. At some point on the downside, the big buyers, the accumulators, the men who move markets, say to themselves, "This is where I start putting 'em away, this is where stocks appear on the bargain table, this is where I'll take my stand." When the big boys think that way and act on it, we have the base for a major move. I am not sure we are there yet.

Now let's turn to the chart (page 3) of the advance-decline ratio and the cumulative most-active stock index (CMAS). Here we see the profile of a rather difficult technical problem. In mid-September the Dow and many technical indices recorded important low points. Then we witnessed a violent two-day bounce in the Dow (September 18 and 19), taking the senior Average to within 10 points of its 840.11 peak. But as you can see on the chart, the A-D ratio and the CMAS did not come anywhere near their own comparable peaks (those peaks are marked with an X on the chart). So the first question on my mind is — if the Dow does move above 840.11, how will the technical situation resolve itself? A move above 840.11 on the Dow would give me non-confirmation on many of my technical indexes, and that would create more problems than it would solve.

Conclusion: The primary trend of the market is bullish. The secondary trend, although perhaps in the process of turning bullish, would best be considered bearish. I would consider the secondary trend to remain bearish unless Industrials and Transports

better the 840.11 and 157.24 levels, respectively.

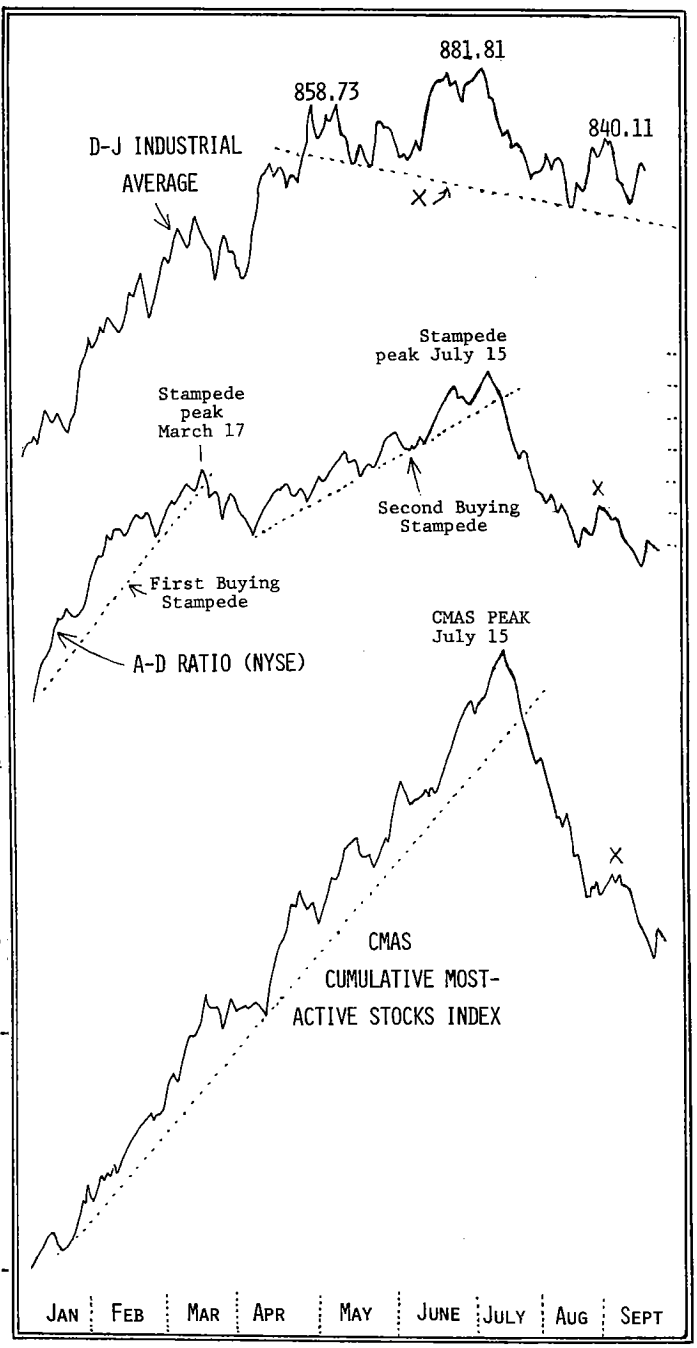
MOMENTUM: (Chart page 4) I have presented the momentum studies of the Dow in many past reports. When I use the term "momentum," I am referring to the ratio of the Dow against its value at a fixed time in the past. I use a 13-week span for an intermediate term momentum line (the Dow divided by its price of 13 weeks ago), I use a 34-week ratio (arrived at by dividing the current price of the Dow by its price of 34 weeks ago) for my long-term momentum index.

What exactly is momentum? I can best illustrate momentum in terms of a rubber ball that is thrown straight up in the air. As the ball rises, it loses speed (or actually momentum, which also takes into account the matter of weight). At a certain point in space, the ball actually stands still. At that point it has totally lost its upward momentum. Then the ball begins its descent back to earth. Its momentum increases as it falls, and finally it hits the earth with a thud.

The action of the market is not too different from that of the ball. For instance, the upward force of the thrower propels the ball skyward. Gravity then pulls the ball back to earth. In the case of Wall Street, the market is pushed up by steady buying power. But as the old adage states, "The market goes up on buying, but it falls of its own weight." In other words, it takes buying to run the market up, but when the buying stops the sellers hits the bids (which tend to be below the last sale price) and the market starts declining.

I wrote many times during the 1973-74 collapse concerning the three major downward thrusts in both the 13-week and 34-week momentum lines. On the chart you can see that the first downward thrust (gray area, or ratio number below 100) occurred in early 1973. The second downward thrust took place in late-1973 and early-1974, and the final horrendous downthrust occurred during 1974. At that point, I felt that the bear market had about spent itself on the downside. I also noted that during later 1974 declining momentum had reached its greatest extreme since 1938.

When the worst has been seen, it is axiomatic that the situation can only get better. This is the way it looked in late-1974. In Letter 617 (Dec. 13, 1974) I discussed the implications of the great drop in momentum and began cautioning readers about becoming too bearish. Letter 623 (February 26) documented the actual reversal in momentum, the turn from decreasing downside momentum to increasing upside momentum.

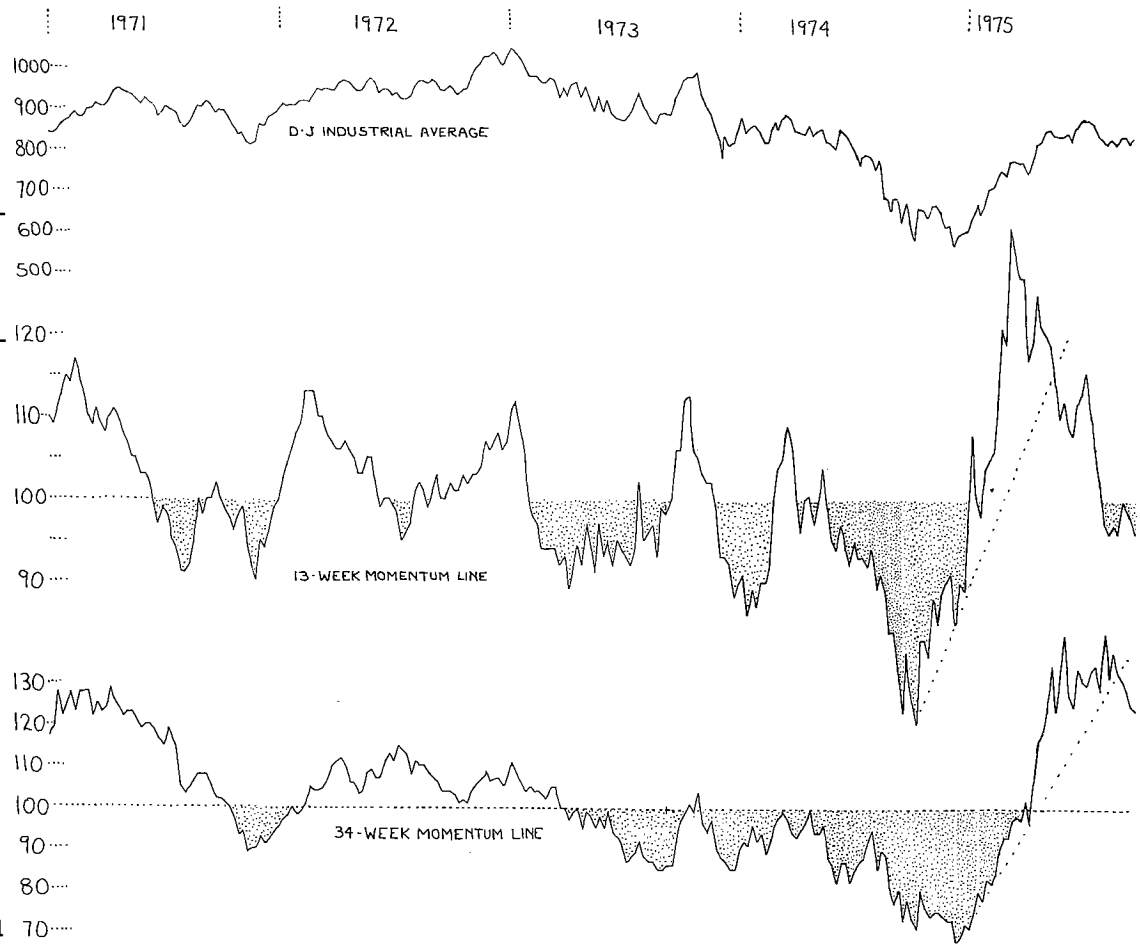


The force of the upward surge in the Dow during 1975 was one of the most dramatic in market annals. But by mid-March the momentum picture had changed to one of "too much too soon." Letter 625 (March 19) presented the problem of the exploding momentum line, and I stated that the market was, in fact, in need of a rest. In that Letter (625) I further noted that the market had the following choices: "(1) It could go into a correction that would take the intermediate momentum line back towards equilibrium again, or (2) The market could halt its ascent, consolidate, attempt to hold most of its gains and meanwhile allow the momentum lines to decline."

Following the momentum peak in March, the Dow itself pushed to an even more overbought peak (during June and July). But the rise was deceptive, and the momentum line actually continued to fall. Letter 629 (April 30) and Letter 631 (May 21) warned of the rapidly deteriorating situation in momentum. It appeared that a correction in the Dow was imminent, and, of course, the great majority of issues (as gauged by the advance-decline ratio) were already correcting.

As seen on the chart, the 13-week momentum index broke its upward trendline in July. The long-term or 34-week momentum line plunged below its rising trendline in early August. By September the correction was on in earnest. The question now is — how far does the Dow have to fall in order to correct the excess of the earlier momentum explosion?

My feeling is that during 1974 and 1975 we have seen great extremes, first in downside, then in upside momentum. From here on, the swings will be milder. I would also guess that there will be an upward bias in the momentum indices, so that I would expect this momentum decline to halt with the 13-week momentum well above its 1974 low, and the 34-week momentum line perhaps just above or at zero.



DOW THEORY: In the latest (Sept. 4) issue of the well-known Myers' Finance and Energy, Mr. C.V. Myers rejects the Dow Theory concept that the Averages (or the market) contain the sum total of what everyone knows about everything. The text of most of Mr. Myers' denunciation appears below. The text is included because I feel that it is of utmost importance to my readers to understand this most basic of all Dow Theory concepts, and obviously it is a concept with which Mr. Myers disagrees vociferously. In presenting the "Myers' case," I feel that I have an opportunity to present my own views or rather the views which I share with my Dow Theory predecessor.

I am not the least bit interested in attacking Mr. Myers himself. Myers, to my mind, is an outstanding and original thinker, and I respect him. But I am interested in teaching the Dow Theory as I have learned it (and I assume Mr. Myers has singled me out because of my many years of writing about Dow's Theory).

Mr. Myers starts out by saying that "the market doesn't give a damn." In that, he is absolutely correct. The market is the sum total of all the fears, the hopes, the dreams, the rumors, the greed, a million emotions all poured into a single bowl. When that happens, a strange concoction results. It's as if all the various emotions cancel each other out — and we are left with a cold,

WHAT THE MARKET IS TELLING US

How many analysts spend the bulk of their time figuring out **what the market is trying to tell us**. As if they had a key to the language of the market, not possessed by the ordinary man.

Well, my answer to that is that the market is not trying to tell us anything; for two reasons: In the first place the market doesn't give a damn. In the second place, the market doesn't know anything.

Take an example. Richard Russell of the Dow Theory Letter in early 1975, kept interpreting for his subscribers what the market was trying to tell us. According to Mr. Russell it was trying to tell us of the great new boom that was developing. But now I read , August 15, Mr. Russell: "The market seems to be telling us that business isn't going to perform as expected. In fact, I would say that the market is moving down to safe level in anticipation of a good many business disappointments this fall."

Now let's give Mr. Russell his due. He got right on the upswing about as early as anyone. The trouble is his reasons were wrong. Had the market been forecasting a business boom, as divined by Mr. Russell, he would not need to be advising you to watch out for a huge reversal now. When you are dealing with a moron it's just as well that you don't understand his language. My point is that the market is a moron.

I think the market ought to be watched, but not for the same reasons as Mr. Russell. It ought to be watched so you can discern the trend, the direction of the wrong-headedness of the wiz kids running the funds, and then quietly pick the opposite course.

That won't help you catch the rallies. But no great loss, because rallies are too dangerous anyway. Anyone will admit that while a bull market means a long and dependable uptrend, no one can tell how far a rally will go, or how quickly it will collapse.

If you want to preserve your capital, play the big trends -- **but never the rallies.**

Well, then what about what the market was telling us last spring? We haven't had any business recovery yet. If the market was trying to tell us there was going to be a boom, as Mr. Russell declared, **the market lied through its teeth.**

Well, if the market lied through its teeth then, how much are we to depend upon what the market is trying to tell us even when interpreted correctly by the seers?

The market is an ox. Its stupidity is the sum total of the stupidity of its participants.

Look at the gold market of 1971. When Nixon closed the gold window, the price of gold plummeted. The market was telling us loudly that gold was finished. After that the price of gold quadrupled. The gold market represented the sum total of the stupidity of the unthinking brokers and investment advisors.

remorseless barometer of what everyone knows about anything that can effect corporate profits and stock profits. So here Myers is certainly right, the Averages don't give a damn, and that is one of their strong points.

But when Myers says the Averages don't "know anything," he couldn't be more mistaken. I have studied the Averages and the meaning of the market for the better part of my life, and I don't know of a single important movement in the economy (going back to the turn of the Century) which was not foreshadowed in advance by the D-J Industrials and Transport Averages. True, there have been "predictions" that did not come true (such as 1962), but in such cases the market corrects itself as quickly as it is able.

Another way of putting it is that the market reserves the right to change its mind at a moment's notice (a right which I imagine Mr. Myers finds intolerable). For instance, every movement must have an ultimate top and an ultimate bottom. Why did the market decline all during the first half of 1932, and why did the Averages hit absolute bottom on July 8, 1932? Because for some unknown reason, Wall Street decided that prices on July 8 (not July 7 or 6) discounted the absolute worst that lay ahead. And Wall Street was right. No events, not the depth of the Great Depression, not World War II, ever took the Averages below the July 8, 1932 lows. That was THE bottom.

Why were the last confirmed lows for the Averages registered on October 3, 1974? Why, with business rotten all during late-1974 and early 1975, did the Averages hit joint lows on October 3, then move higher? Because on October 3 the market decided that it had seen (discounted) the worst, and on that day it changed its collective mind about going lower. In so doing, it foresaw more than all the economists, corporate treasurers, Congressmen and business leaders put together. And Mr. Myers claims that "the market is a moron." Mr. Myers and Mr. Russell should be such morons! If we were, then between us (given a year or so) we would have more money than all the Arab nations together will ever see.

Of course it is necessary to understand that the market doesn't like uncertainty, and it's first reaction to uncertainty is usually to back off. The market also tends to overdo every move — on the upside and the downside. Perhaps these phenomena are what Mr. Myers is complaining about. Or perhaps he is complaining because the market (or his reading of it) is not perfect. But I'll remind Mr. Myers that it is not given to man to know his destiny, nor is it given to any analyst to read the market barometer perfectly.

If man knew his destiny, then he would very likely sit down in the nearest easy-chair and wait for it to "happen." And if Mr. Myers and I could read the market perfectly, then within a few months we would break Wall Street, and then there would be nothing for either of us to write about (and with all those $ billions, who knows, perhaps we wouldn't even want to write). And that's all I have to say about the whole subject.

GOLD, DISTRIBUTION: I've had a veritable flood of phone calls, letters (and subscriptions) over the past few weeks. I want to say again that all I sell, the only thing I sell, is a publication entitled Dow Theory Letters. I can't take most of my phone calls, and I don't have the time to answer the great majority of letters that arrive here. But by any reckoning, last week was a winner as far as my frustrations are concerned. This is the way a typical phone call sounded:

"Hello, this is Charles Johnson of New York. I've got a large position in gold shares, and frankly, I'm panicking. Do you think..."

"Mr. Johnson, are you a subscriber?"

"No, but a friend takes your service. I'm going to subscribe, but I've been taking so-and-so and so-and-so, and they've been saying stay with gold, and ...."

"Mr. Johnson, I can't talk with most of my own subscribers, and I sure haven't got time to give you personal advice. Please, you're...."

"But I'm desperate, Mr. Russell, and if I don't get this...."

"Mr. Johnson, I'll repeat, all I sell is a publication. All my thoughts on gold and everything else are in that publication. If you want to know what I think, why don't you simply subscribe. There's no way I can give you the answer to all your investment mistakes over the phone."

And so it goes, and I usually get another subscription in the mail with a notation in red letters to the effect that the fellow would like the latest report by return mail. It's a tragic way to do business; it's depressing. But what the devil am I supposed to do? I can't run an emergency room for battered investors, and I can't save the portfolios of gentlemen who have ridden their gold shares down to the basement in this bear market in gold. What time I have, I want to use for my own subscribers — for thinking, studying, charting, writing. I feel that it is absolutely the only fair way to operate.

All right, I've got that off my chest, so on to the next item. I have used the word "distribution" a lot, and many subscribers have asked me what I mean by distribution. Here's my answer. Prior to a major rise, a stock must be accumulated or put into strong hands. This kind of accumulation is usually done by informed investors, investors who know values. This is not overnight buying, it is not buying on tips, rumors or charts. It is powerful fundamental buying based on the premise that the stock is cheap, that it represents a good, long-term holding, and that ultimately the market will appraise it at much higher prices.

In other words, it takes sponsorship, strong hands, to accumulate a stock. By the same token, at some point these same powerful interests will unload the stock (usually at much higher prices). Once the accumulators decide that the stock has reached (or climbed past) value, they start selling, putting out their wares on every rally. This is usually done under the cover of good news for the stock or the industry (or the market in general). It is not quick or indiscriminate selling, it is steady unloading of large, important positions. This is what I term distribution (as opposed to amateur selling on fear news or some other pretect).

MORE ON GOLD, DOLLARS, ETC. The dollar is now strong; it's the strongest currency in the world. I was probably the first writer in the country to point to the big move coming up in the dollar (Letter 635). I warned that this was not going to be an upward blip; it was going to be outstanding strength in the greenback, and it was going to be a move of major proportions. And that's exactly what we're getting.

Gold has been battered to its knees. I'm getting tired of showing charts of gold breaking support, gold topping out, gold heading for the lower depths. Now that gold has broken 130 (Sept. 23), it could head for the 115-125 area. All the gold experts told us that gold "support" was at 170 or 150 or 140. But the law of supply and demand just isn't interested. You see, the experts forgot about a few little items such as panic, margin calls, and crowd instinct!

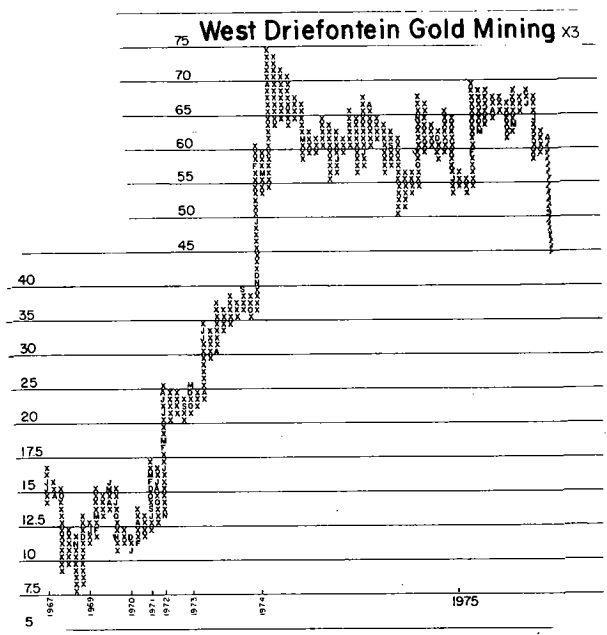
I've warned that bear markets always go further on the downside than anyone expects. In a bear market, the price movement hits the skids and generally keeps going until the proudest and most stubborn optimist looks like a damned fool. Bear markets are unmerciful, costly, tragic. And that's the kind of situation gold is in, and neither I nor anyone else knows where the final bottom is.

I will make one observation, however. So far, the worst beating has been taken by the S. African gold shares. Before the bear market in gold is over, I expect to see panic hit the listed gold shares, and I am talking about Homestake, ASA, Dome, Campbell. They "should" break their 1974 lows with a vengeance before the bear market in gold has ended. So far, those lows have held.

Some subscribers couldn't understand why I said (many months ago) "Sell out your golds, don't ride them down, don't harbor preconceived notions about where the bottom 'has to be'." I still don't know where the bottom is, but with the US economy now stronger than most of the rest of the world's economies, with the dollar a red hot item, with US interest rates comparatively high, everyone wants to be out of gold and into interest-bearing dollars. You don't like that picture, you want to fight it, it doesn't match your script? Be my guest, and do battle with reality and the primary trend of gold. But do yourself one favor; put $5 aside. When it's all over, you can take that $5 and buy yourself a new shirt.

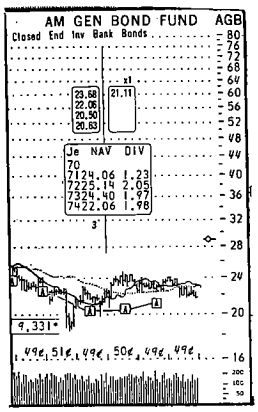
THOUGHTS: I keep talking about inflation and deflation, and the picture remains as murky as ever. I have thought about this whole situation until my brain feels like a tired sponge. What I believe is that there are many real deflationary forces now butting heads with the Government sponsored forces of inflation. Deflationary forces include high interest rates, the high cost of doing business, the squeeze on profit margins, the low levels of US productivity, the low liquidity levels of US business, the illiquidity of the US consumer. Frankly, it's hard to inflate a balloon that's full of holes, and the US economy now has a thousand holes.

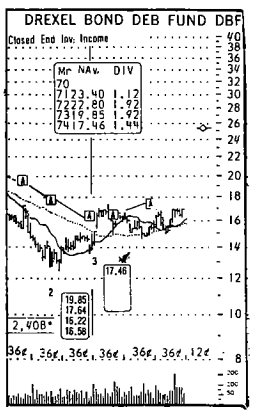
Gold sees the picture. It sure isn't inflationary when gold falls apart the way it's been doing. And if large interests really were that worried about all-out inflation, they'd be grabbing gold as if it were the key to life. They haven't; they've let it drop. When I look at some of the gold charts such as West Driefontein (see P & F chart, courtesy of Crosschart, 18 E. 41 St., NYC 10017), I see tops so huge, so monumental, that I actually doubt whether we will see new highs on these stocks within our lifetime! That's how massive the gold tops are, and that's how bearish I think the gold charts are.

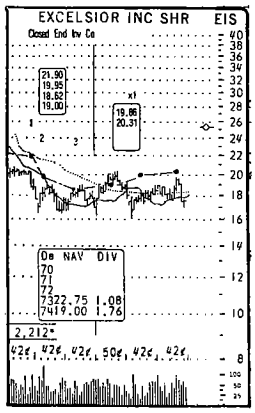


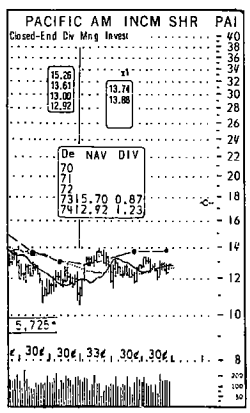
The fund boys, the guys who manage the institutional billions, they have to be going out of their minds. They're dumping as much of the low-yielding glamor stuff as they can. They're unloading the glamors the way sellers are unloading second-hand Cadillacs and Buicks in the used car markets — with great difficulty.

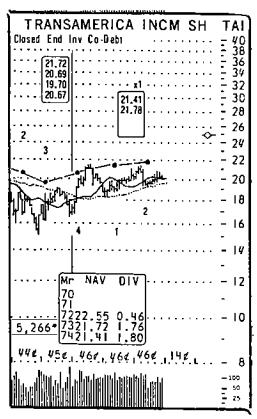
What will take the place of the glamors and the one-decision stocks? I think it will be bonds and notes and blue chip stocks such as the Dow Industrials. The new leaders are probably fated to be stocks such as US Steel and American Telephone and General Motors. After all, how can you justify holding a glamor stock that's 50% under its peak price and yielding 1% when you can buy American Telephone yielding 7.5% and let's face it, Ma Bell is in better shape than Xerox right now (or am I missing something?).



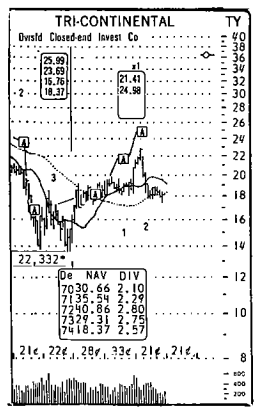








STOCKS: I've been recommending the closed-end bond funds. Despite the rising interest rates, these funds have held remarkably well. Most of them are about where I originally recommended them, and since they pay from 8.5% to 10% yields, standing still is not the worst thing they can do. I continue to feel that the bond funds listed on the Big Board represent attractive places to place funds, and through courtesy of Quote Digest, (Box 213, Wichita, KS 67201) I include charts of a few of the funds that I like. The majority of these funds are now selling below actual net assets, so that in Excelsior, for instance, you are paying 90¢ for every dollar worth of bonds (the fund is selling at around 10% below assets).



All right, suppose this market takes off on the upside (it still is a primary bull market, in case you forgot), and we want a hedge in common stocks. "That's right," you add, "what good is a bond fund (even if it pays 10%) if the Dow goes to 1000 or 1200?" May other thought is that you can hedge your bond fund bets with the largest closed-end stock funds, Tri-Continental. This fund has been recommended before, it got as high as 22-7/8 at the 1975 high, and TY is now selling at a most attractive level around 18. TY is also selling at around 20% below net assets (assets are over $21), and thus the buyer obtains dividends on $21 worth of stock which cost him only $18 to purchase.

If the general market goes back to its 1975 high or above, it wouldn't surprise me to see TY also go back to 23 or above. Such a move would hardly be shabby in this difficult market, although, of course, the more aggressive readers are probably thinking in terms of doubling their money if the Dow goes to 1000. On the downside, if the Dow drops to say 720, I personally don't think TY would drop much below the 17 area, and therefore I feel that TY provides good value, good protection on the downside with a chance of a decent move if the market really heads for the heavens.

NOTES: I am leaving the night of September 24 for "The Big Apple" or "Fun City," as NYC is often called. People here ask me "Why?" I don't really know why. The French have a saying, "A man always returns to his first love." I used to love NYC. I still do in a way, but now that love is mixed with anger, disgust, disappointment. Today I think of NYC as "Rip-Off City," and I mean just that. NYC was the adventurous big city of my boyhood, a place there you could wander at will, to Harlem, to the Bronx, all over Manhattan, to 42nd St. at 4AM, across Central Park at midnight. Now NYC is a giant, gaudy, bankrupt whore. But it's still my home town, and every once in a while I return to my first love.

I'm going to be in NYC for four days, and for that reason I'm taking two weeks between this report and the next (instead of the usual 10 days). I'm also taking a giant binder with me, which will hold most of my charts. I'll update these charts each day (if I miss four days with these, I can never catch up!). The next report will be mailed October 10.

LATE NOTES: On September 23 the Transport Average rallied above its August 29 peak of 157.24. The move has not yet been confirmed by the Industrials. The next day saw Industrials bounce up off the 820 level, and we are now (as this is written) within shooting distance of the important 840.11 Dow peak of September 8. If Industrials get above 840.11, the secondary trend will have turned bullish again. Then it will be a question of whether we get "all around confirmation" from the other indicators. Tri-Continental should be in most portfolios now, since it provides a "call" on the market at a discount, a discount that will usually grow smaller if and when the market becomes frothy.

LATE, LATE NOTES: Gold popped up today, and I'm getting calls from all over the world with the question, "Do I buy here?" I would prefer to hold off because after yesterday's panic drop below 130, it would be normal to get a bounce halfway back to 160 or a move say to 145 or thereabouts. But just as surely after the first bounce off a panic low, we should see a retesting of the lows and usually a break below the first panic low. Buy a little gold here if you want (no shares), but expect a retest of 128 with very likely a drop to the 115-120 area within a few months.

SAN DIEGO to NYC FINAL: I hear it's pouring in NYC with a hurrican moving up the Coast. Here in San Diego we're having a heat wave, and the beaches are playing to overflow crowds. Anyone want to trade a bathing suit for a pair of rubbers?